



Report to the Auburn City Council

Action Item	4
Agenda Item No.	

City Manager's Approval	
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To: Honorable Mayor and City Council Members
From: Andy Heath, Administrative Services Director
Date: May 26, 2009
Subject: Citywide Audit and Financial Statement Preparation – Fiscal Years Ended June 30, 2009 and June 30, 2010

The Issue

Shall the City Council execute an agreement with Gallina LLP (formerly Bartig, Basler & Ray, CPA's, Inc.) to conduct an audit and prepare financial statements for the City of Auburn?

Conclusions and Recommendations

By RESOLUTION authorize the City Manager or his designee to execute an agreement with Gallina LLP to conduct an audit and prepare financial statements for the City of Auburn as of and for the fiscal years ended June 30, 2009 and June 30, 2010 in an amount not to exceed \$103,680.

Background

Subsequent to the end of each fiscal year, an audit of the City's financial position is conducted and financial statements prepared by an external audit firm. The external auditor's primary responsibility is to express an opinion on the financial statements prepared based on the audit performed. Completion of an audit and accompanying financial statements is necessary to provide Auburn's citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances, and to demonstrate the City's accountability for the money it receives.

For the past three years, Bartig Basler & Ray, CPA's Inc. (which subsequently merged with Gallina LLP in FY 2006-07) has performed the auditing services for the City of Auburn. Gallina LLP was selected to perform the audits subsequent to a Request for Proposals process, replacing Mann, Urritia, Nelson, CPA's, LLP, who conducted the City's audits for six years.

Analysis**Gallina LLP**

Gallina LLP has conducted the City of Auburn's annual financial audits for the last three fiscal years. Gallina LLP (Gallina) a well-respected firm of Certified Public Accountants based in Roseville, CA, has recently performed audits for other jurisdictions including the Counties of Yuba, Sierra, Amador, Calaveras and Napa; and the Cities of Portola and Reno (NV).

At the request and with the assistance of Administrative Services Department staff, Gallina has helped to facilitate issuance of the City's first Comprehensive Annual Financial Reports (CAFR). Compared with the City's prior issuance of Compiled Financial Statements, a CAFR contains information which supplements the general purpose financial statements, including an introductory section discussing the governmental unit and a statistical section discussing social and economic data, financial trends and the fiscal capacity of the government. Preparation of a CAFR demonstrates a reporting entities willingness and desire to report financial information at a very high level which may ultimately be used by outside investors of the City. It should be mentioned that the City's first two CAFR's have received the Government Finance Officer's Association (GFOA) prestigious Certificate of Achievement for Excellence in Financial Reporting. The City's CAFR for fiscal year 2007-08 is currently under review for the award.

Gallina has proposed to conduct the audit for the fiscal years ended June 30, 2009 and June 30, 2010 at a cost of \$51,840 for each fiscal year. This represents a \$14,840 annual increase (40%) when compared to the total charged for fiscal year 2007-08. Fees have increased as a result of:

- Implementation of new risk standards placed on audit firms pursuant to Statements on Auditing Standards (SAS) No. 102-110;
- Implementation of Government Accounting Standards Board (GASB) statements requiring higher level of disclosure for certain financial data;
- Increased audit requirements related to federal award expenditures and major program testing (Single Audit Act); and
- Increased audit requirements related to the Auburn Urban Development Authority, a component unit of the City related to the recent issuance of bonds.

Over the last three years, Gallina has proven to be a responsive, integral partner towards the development and presentation of audited financial information for the City of Auburn. Gallina maintains a well-trained staff, whom are cycled through each annual engagement to assure audit independence. As such, staff recommends the City use Gallina as its outside audit services firm for an additional two years.

Alternatives Available to Council; Implications of Alternatives

1. Adopt a resolution to execute an agreement with Gallina LLP in an amount not to exceed \$103,680 to conduct an audit and prepare the City's Comprehensive Annual Financial Report (CAFR) for fiscal years ended June 30, 2009 and June 30, 2010.
2. Do not use Gallina LLP and issue a Request for Proposals for Professional Auditing Services. Issuing a Request for Proposals may result in a higher cost for audit services and will require significant staff resources to engage a new audit services firm, to the extent one is selected (note: The State of California requires an annual audit of the City's finances).

Fiscal Impact

An expenditure appropriation of \$51,840 for audit services will be considered as part of the Finance Department's base budget for fiscal years 2009-10 and 2010-11. General Fund costs will be \$43,340 annually, with the residual \$7,500 being funded by the Auburn Urban Development Authority.

Attachment - Proposed Professional Services Agreement between the City of Auburn and Gallina LLC

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RESOLUTION NO. 09-
RESOLUTION AUTHORIZING EXECUTION OF AN AGREEMENT WITH GALLINA
LLP TO CONDUCT AUDITING & FINANCIAL STATEMENT PREPARATION
SERVICES

THE CITY COUNCIL OF THE CITY OF AUBURN DOES HEREBY RESOLVE:

That the City Council of the City of Auburn does hereby authorize the
City Manager or his designee to execute an agreement with Gallina LLP to
conduct an audit and prepare financial statements for the City of Auburn as of
an for the years ended June 30, 2009 and June 30, 2010 in an amount not to
exceed \$103,680.

DATED: May 26, 2009

J.M. Holmes, Mayor

ATTEST:

Joseph G. R. Labrie, City Clerk

I, Joseph G. R. Labrie, City Clerk of the City of Auburn, hereby certify
that the foregoing resolution was duly passed at a regular meeting of the City
Council of the City of Auburn held on the 26th day of May 2009 by the
following vote on roll call:

Ayes:
Noes:
Absent:

Joseph G. R. Labrie, City Clerk

PROFESSIONAL SERVICES AGREEMENT
(City of Auburn / Gallina LLP)

1. IDENTIFICATION

THIS PROFESSIONAL SERVICES AGREEMENT ("Agreement") is entered into by and between the City of Auburn, a California municipal corporation ("City") and Gallina LLP, a State of California professional corporation ("Consultant").

2. RECITALS

- 2.1 City has determined that it requires the following professional services from a consultant: Performance of the financial and compliance audits for the years ended June 30, 2009 and June 30, 2010 (as specifically described in Exhibit A – Scope of Services).
- 2.2 Consultant represents that it is fully qualified to perform such professional services by virtue of its experience and the training, education and expertise of its principals and employees. Consultant further represents that it is willing to accept responsibility for performing such services in accordance with the terms and conditions set forth in this Agreement.

NOW, THEREFORE, for and in consideration of the mutual covenants and conditions herein contained, City and Consultant agree as follows:

3. DEFINITIONS

- 3.1 "Scope of Services": Such professional services as are set forth in Consultant's February 20, 2009 Audit Services proposal to City attached hereto as Exhibit A and incorporated herein by this reference.
- 3.2 "Approved Fee Schedule": Such compensation rates as are set forth in Consultant's February 20, 2009 Audit Services Proposal attached hereto as Exhibit B and incorporated herein by this reference.
- 3.3 "Commencement Date": May 27, 2009.
- 3.4 "Expiration Date": March 31, 2011.

4. TERM

The term of this Agreement shall commence at 12:00 a.m. on the Commencement Date and shall expire at 11:59 p.m. on the Expiration Date unless extended by written agreement of the parties or terminated earlier in accordance with Section 17 ("Termination") below.

5. CONSULTANT'S SERVICES

- 5.1 Consultant shall perform the services identified in the Scope of Services. City shall have the right to request, in writing, changes in the Scope of Services. Any such changes mutually agreed upon by the parties, and any corresponding increase or decrease in compensation, shall be incorporated by written amendment to this Agreement. In no event shall the total compensation and costs payable to Consultant under this Agreement exceed the sum of One Hundred Three Thousand Six Hundred Eighty Dollars (\$103,680) unless specifically approved in advance and in writing by City.
- 5.2 Consultant shall obtain a City business license prior to commencing performance under this Agreement.
- 5.3 Consultant shall perform all work to the highest professional standards of Consultant's profession and in a manner reasonably satisfactory to City. Consultant shall comply with all applicable federal, state and local laws and regulations, including the conflict of interest provisions of Government Code Section 1090 and the Political Reform Act (Government Code Section 81000 *et seq.*).
- 5.4 During the term of this Agreement, Consultant shall not perform any work for another person or entity for whom Consultant was not working at the Commencement Date if both (i) such work would require Consultant to abstain from a decision under this Agreement pursuant to a conflict of interest statute and (ii) City has not consented in writing to Consultant's performance of such work.
- 5.5 Consultant represents that it has, or will secure at its own expense, all personnel required to perform the services identified in the Scope of Services. All such services shall be performed by Consultant or under its supervision, and all personnel engaged in the work shall be qualified to perform such services. Brad Constantine, CPA, shall be Consultant's project administrator and shall have direct responsibility for management of Consultant's performance under this Agreement. No change shall be made in Consultant's project administrator without City's prior written consent.

6. COMPENSATION

- 6.1 City agrees to compensate Consultant for the services provided under this Agreement, and Consultant agrees to accept in full satisfaction for such services, payment in accordance with the Approved Fee Schedule.
- 6.2 Consultant shall submit to City an invoice, on a monthly basis or less frequently, for the services performed pursuant to this Agreement. Each invoice shall itemize

the services rendered during the billing period and the amount due. City shall not withhold applicable taxes or other authorized deductions from payments made to Consultant.

- 6.3 Payments for any services requested by City and not included in the Scope of Services shall be made to Consultant by City on a time-and-materials basis using Consultant's standard fee schedule. Consultant shall be entitled to increase the fees in this fee schedule at such time as it increases its fees for its clients generally; provided, however, in no event shall Consultant be entitled to increase fees for services rendered before the thirtieth day after Consultant notifies City in writing of an increase in that fee schedule.

7. OWNERSHIP OF WRITTEN PRODUCTS

All reports, documents or other written material ("written products" herein) developed by Consultant in the performance of this Agreement shall be and remain the property of City without restriction or limitation upon its use or dissemination by City. Consultant may take and retain copies of such written products as desired, but no such written products shall be the subject of a copyright application by Consultant.

8. RELATIONSHIP OF PARTIES

Consultant is, and shall at all times remain as to City, a wholly independent contractor. Consultant shall have no power to incur any debt, obligation, or liability on behalf of City or otherwise to act on behalf of City as an agent. Neither City nor any of its agents shall have control over the conduct of Consultant or any of Consultant's employees, except as set forth in this Agreement. Consultant shall not represent that it is, or that any of its agents or employees are, in any manner employees of City.

9. CONFIDENTIALITY

All data, documents, discussion, or other information developed or received by Consultant or provided for performance of this Agreement are deemed confidential and shall not be disclosed by Consultant without prior written consent by City. City shall grant such consent if disclosure is legally required. Upon request, all City data shall be returned to City upon the termination or expiration of this Agreement.

10. INDEMNIFICATION

- 10.1 The parties agree that City, its officers, agents, employees and volunteers should, to the fullest extent permitted by law, be protected from any and all loss, injury, damage, claim, lawsuit, cost, expense, attorneys' fees, litigation costs, or any other cost arising out of or in any way related to the performance of this Agreement. Accordingly, the provisions of this indemnity provision are intended

by the parties to be interpreted and construed to provide the City with the fullest protection possible under the law. Consultant acknowledges that City would not enter into this Agreement in the absence of Consultant's commitment to indemnify and protect City as set forth herein.

- 10.2 To the fullest extent permitted by law, Consultant shall indemnify, hold harmless and defend City, its officers, agents, employees and volunteers from and against any and all claims and losses, costs or expenses for any damage due to death or injury to any person and injury to any property resulting from any alleged intentional, reckless, negligent, or otherwise wrongful acts, errors or omissions of Consultant or any of its officers, employees, servants, agents, or subcontractors in the performance of this Agreement. Such costs and expenses shall include reasonable attorneys' fees incurred by counsel of City's choice.
- 10.3 City shall have the right to offset against any compensation due Consultant under this Agreement any amount due City from Consultant as a result of Consultant's failure to pay City promptly any indemnification arising under this Section 10 and any amount due City from Consultant arising from Consultant's failure either to (i) pay taxes on amounts received pursuant to this Agreement or (ii) comply with applicable workers' compensation laws.
- 10.4 The obligations of Consultant under this Section 10 are not limited by the provisions of any workers' compensation act or similar act. Consultant expressly waives its statutory immunity under such statutes or laws as to City, its officers, agents, employees and volunteers.
- 10.5 Consultant agrees to obtain executed indemnity agreements with provisions identical to those set forth here in this Section 10 from each and every subcontractor or any other person or entity involved by, for, with or on behalf of Consultant in the performance of this Agreement. In the event Consultant fails to obtain such indemnity obligations from others as required herein, Consultant agrees to be fully responsible and indemnify, hold harmless and defend City, its officers, agents, employees and volunteers from and against any and all claims and losses, costs or expenses for any damage due to death or injury to any person and injury to any property resulting from any alleged intentional, reckless, negligent, or otherwise wrongful acts, errors or omissions of Consultant's subcontractors or any other person or entity involved by, for, with or on behalf of Consultant in the performance of this Agreement. Such costs and expenses shall include reasonable attorneys' fees incurred by counsel of City's choice.
- 10.6 City does not, and shall not, waive any rights that it may possess against Consultant because of the acceptance by City, or the deposit with City, of any insurance policy or certificate required pursuant to this Agreement. This hold harmless and indemnification provision shall apply regardless of whether or not

any insurance policies are determined to be applicable to the claim, demand, damage, liability, loss, cost or expense.

11. INSURANCE

- 11.1 During the term of this Agreement, Consultant shall carry, maintain, and keep in full force and effect insurance against claims for death or injuries to persons or damages to property that may arise from or in connection with Consultant's performance of this Agreement. Such insurance shall be of the types and in the amounts as set forth below:
 - 11.1.1 Comprehensive General Liability Insurance with coverage limits of not less than One Million Dollars (\$1,000,000) including products and operations hazard, contractual insurance, broad form property damage, independent consultants, personal injury, underground hazard, and explosion and collapse hazard where applicable.
 - 11.1.2 Automobile Liability Insurance for vehicles used in connection with the performance of this Agreement with minimum limits of One Million Dollars (\$1,000,000) per claimant and One Million dollars (\$1,000,000) per incident.
 - 11.1.3 Worker's Compensation insurance as required by the laws of the State of California.
 - 11.1.4 Professional Errors and Omissions Insurance with coverage limits of not less than One Million Dollars (\$1,000,000).
- 11.2 Consultant shall require each of its subcontractors to maintain insurance coverage that meets all of the requirements of this Agreement.
- 11.3 The policy or policies required by this Agreement shall be issued by an insurer admitted in the State of California and with a rating of at least A:VII in the latest edition of Best's Insurance Guide.
- 11.4 Consultant agrees that if it does not keep the aforesaid insurance in full force and effect, City may either (i) immediately terminate this Agreement; or (ii) take out the necessary insurance and pay the premium thereon at Consultant's expense.
- 11.5 At all times during the term of this Agreement, Consultant shall maintain on file with City's Risk Manager a certificate or certificates of insurance showing that the aforesaid policies are in effect in the required amounts and naming the City and its officers, employees, agents and volunteers as additional insureds.

Consultant shall, prior to commencement of work under this Agreement, file with City's Risk Manager such certificate(s).

- 11.6 Consultant shall provide proof that policies of insurance required herein expiring during the term of this Agreement have been renewed or replaced with other policies providing at least the same coverage. Such proof will be furnished at least two weeks prior to the expiration of the coverages.
- 11.7 The general liability and automobile policies of insurance required by this Agreement shall contain an endorsement naming City and its officers, employees, agents and volunteers as additional insureds. All of the policies required under this Agreement shall contain an endorsement providing that the policies cannot be canceled or reduced except on thirty days' prior written notice to City. Consultant agrees to require its insurer to modify the certificates of insurance to delete any exculpatory wording stating that failure of the insurer to mail written notice of cancellation imposes no obligation, and to delete the word "endeavor" with regard to any notice provisions.
- 11.8 The insurance provided by Consultant shall be primary to any coverage available to City. Any insurance or self-insurance maintained by City and/or its officers, employees, agents or volunteers, shall be in excess of Consultant's insurance and shall not contribute with it.
- 11.9 All insurance coverage provided pursuant to this Agreement shall not prohibit Consultant, and Consultant's employees, agents or subcontractors, from waiving the right of subrogation prior to a loss. Consultant hereby waives all rights of subrogation against the City.
- 11.10 Any deductibles or self-insured retentions must be declared to and approved by the City. At the option of City, Consultant shall either reduce or eliminate the deductibles or self-insured retentions with respect to City, or Consultant shall procure a bond in the amount of the deductible or self-insured retention to guarantee payment of losses and expenses.
- 11.11 Procurement of insurance by Consultant shall not be construed as a limitation of Consultant's liability or as full performance of Consultant's duties to indemnify, hold harmless and defend under Section 10 of this Agreement.

12. MUTUAL COOPERATION

- 12.1 City shall provide Consultant with all pertinent data, documents and other requested information as is reasonably available for the proper performance of Consultant's services under this Agreement.

12.2 In the event any claim or action is brought against City relating to Consultant's performance in connection with this Agreement, Consultant shall render any reasonable assistance that City may require in the defense of that claim or action.

13. RECORDS AND INSPECTIONS

Consultant shall maintain full and accurate records with respect to all matters covered under this Agreement for a period of seven years after the expiration or termination of this Agreement. City shall have the right to access and examine such records, without charge, during normal business hours. City shall further have the right to audit such records, to make transcripts therefrom and to inspect all program data, documents, proceedings, and activities.

14. PERMITS AND APPROVALS

Consultant shall obtain, at its sole cost and expense, all permits and regulatory approvals necessary for Consultant's performance of this Agreement. This includes, but shall not be limited to, professional licenses, encroachment permits and building and safety permits and inspections.

15. NOTICES

Any notices, bills, invoices, or reports required by this Agreement shall be deemed received on: (i) the day of delivery if delivered by hand, facsimile or overnight courier service during Consultant's and City's regular business hours; or (ii) on the third business day following deposit in the United States mail if delivered by mail, postage prepaid, to the addresses listed below (or to such other addresses as the parties may, from time to time, designate in writing).

If to City

City of Auburn
c/o Andy Heath, Finance Director
1225 Lincoln Way
Auburn CA 95603
Telephone: (530) 823-4211 x110
Facsimile: (530) 823-4209

If to Consultant:

Gallina LLP
c/o Brad W. Constantine
925 Highland Pointe Drive, Suite 450
Roseville, CA 95678
Telephone: (916) 784-7800
Facsimile: (916) 784-7850

With courtesy copy to:

Michael G. Colantuono, Esq.
Auburn City Attorney
Colantuono, Levin & Rozell, APC
11406 Pleasant Valley Road
Penn Valley, CA 95946-9024

Telephone: (530) 432-7359
Facsimile: (530) 432-7356

16. SURVIVING COVENANTS

The parties agree that the covenants contained in Section 9, Section 10, Paragraph 12.2 and Section 13 of this Agreement shall survive the expiration or termination of this Agreement.

17. TERMINATION

17.1. City shall have the right to terminate this Agreement for any reason on five calendar days' written notice to Consultant. Consultant shall have the right to terminate this Agreement for any reason on thirty calendar days' written notice to City. Consultant agrees to cease all work under this Agreement on or before the effective date of any notice of termination. All City data, documents, objects, materials or other tangible things shall be returned to City upon the termination or expiration of this Agreement.

17.2 If City terminates this Agreement due to no fault or failure of performance by Consultant, then Consultant shall be paid based on the work satisfactorily performed at the time of termination. In no event shall Consultant be entitled to receive more than the amount that would be paid to Consultant for the full performance of the services required by this Agreement.

18. GENERAL PROVISIONS

18.1 Consultant shall not delegate, transfer, subcontract or assign its duties or rights hereunder, either in whole or in part, without City's prior written consent, and any attempt to do so shall be void and of no effect. City shall not be obligated or liable under this Agreement to any party other than Consultant.

18.2 In the performance of this Agreement, Consultant shall not discriminate against any employee, subcontractor, or applicant for employment because of race, color, creed, religion, sex, marital status, sexual orientation, national origin, ancestry, age, physical or mental disability, medical condition or any other unlawful basis.

18.3 The captions appearing at the commencement of the sections hereof, and in any paragraph thereof, are descriptive only and for convenience in reference to this Agreement. Should there be any conflict between such heading, and the section or paragraph thereof at the head of which it appears, the section or paragraph thereof, as the case may be, and not such heading, shall control and govern in the construction of this Agreement. Masculine or feminine pronouns shall be substituted for the neuter form and vice versa, and the plural shall be substituted for the singular form and vice versa, in any place or places herein in which the context requires such substitution(s).

- 18.4 The waiver by City or Consultant of any breach of any term, covenant or condition herein contained shall not be deemed to be a waiver of such term, covenant or condition or of any subsequent breach of the same or any other term, covenant or condition herein contained. No term, covenant or condition of this Agreement shall be deemed to have been waived by City or Consultant unless in writing.
- 18.5 Consultant shall not be liable for any failure to perform if Consultant presents acceptable evidence, in City's sole judgment, that such failure was due to causes beyond the control and without the fault or negligence of Consultant.
- 18.6 Each right, power and remedy provided for herein or now or hereafter existing at law, in equity, by statute, or otherwise shall be cumulative and shall be in addition to every other right, power, or remedy provided for herein or now or hereafter existing at law, in equity, by statute, or otherwise. The exercise, the commencement of the exercise, or the forbearance of the exercise by any party of any one or more of such rights, powers or remedies shall not preclude the simultaneous or later exercise by such party of any of all of such other rights, powers or remedies. In the event legal action shall be necessary to enforce any term, covenant or condition herein contained, the party prevailing in such action, whether reduced to judgment or not, shall be entitled to its reasonable court costs, including accountants' fees, if any, and attorneys' fees expended in such action. The venue for any litigation shall be Placer County, California and Consultant hereby consents to jurisdiction in Placer County for purposes of resolving any dispute or enforcing any obligation arising under this Agreement.
- 18.7 If any term or provision of this Agreement or the application thereof to any person or circumstance shall, to any extent, be invalid or unenforceable, then such term or provision shall be amended to, and solely to, the extent necessary to cure such invalidity or unenforceability, and in its amended form shall be enforceable. In such event, the remainder of this Agreement, or the application of such term or provision to persons or circumstances other than those as to which it is held invalid or unenforceable, shall not be affected thereby, and each term and provision of this Agreement shall be valid and be enforced to the fullest extent permitted by law.
- 18.8 This Agreement shall be governed and construed in accordance with the laws of the State of California.
- 18.9 All documents referenced as exhibits in this Agreement are hereby incorporated into this Agreement. In the event of any material discrepancy between the express provisions of this Agreement and the provisions of any document incorporated herein by reference, the provisions of this Agreement shall prevail. This instrument contains the entire Agreement between City and Consultant with

**Professional Services Agreement
City of Auburn / Gallina LLP**

respect to the transactions contemplated herein. No other prior oral or written agreements are binding upon the parties. Amendments hereto or deviations herefrom shall be effective and binding only if made in writing and executed by City and Consultant.

TO EFFECTUATE THIS AGREEMENT, the parties have caused their duly authorized representatives to execute this Agreement on the dates set forth below.

"City"
City of Auburn

"Consultant"
Gallina LLP

By _____
Robert Richardson, City Manager

By: _____
Brad W. Constantine, Partner

Date: _____

Date: _____

By: _____

Date: _____

Attest:

By _____
Anne Cooley, Deputy City Clerk

Date: _____

EXHIBIT A SCOPE OF WORK

Gallina LLP will perform the scope of work identified in both the City's March 10, 2006 Request for Proposals for Professional Auditing Services and Consultant's February 20, 2009 confirmation of services proposed to the City of Auburn for the years ended June 30, 2009 and June 30, 2010. The scope of work is to include, at a minimum:

1. An audit of the General Purpose Financial Statements of the City of Auburn and the Auburn Urban Development Authority for the fiscal years' ended June 30, 2008 and June 30, 2010 in conformity with generally accepted accounting principles and issuance of the following reports:
 - A report of the fair presentation of the City's financial statements in accordance with accounting principles generally accepted in the United States;
 - A report on the City's internal control over financial reporting and tests of compliance with laws, regulations, contracts and grant agreement and any other matters deemed necessary and material;
 - A report on the fair presentation of the financial statements in conformity with GAAP, including an opinion on the fair presentation of the supplementary schedule of federal awards "in relation to" the audited financial statements;
 - A report on compliance and internal control over financial reporting based on an audit of financial statements performed in accordance with Governmental Auditing Standards;
 - A report on compliance with requirements applicable to each major program and internal control over compliance in accordance with OMB Circular A-133;
 - Separate auditor's reports for the City of Auburn Urban Development Authority;
 - A report on the City's compliance with Proposition 111, Article XIII B of the California State Constitution;
 - A management letter setting forth recommendations (as applicable) for improvements in the City's accounting practice
2. Consultant recognizes that the City will prepare a Comprehensive Annual Financial Report (CAFR), and will assist the City in formatting the CAFR to meet requirements consistent with requirements set forth by the Government Finance Officers Association (GFOA) CAFR Certification Program.
3. Consultant will compile, print and bind all financial statements and relevant documents required and presented as part of the CAFR.

EXHIBIT B APPROVED FEE SCHEDULE

Gallina LLP will be compensated for the work performed as outlined in Exhibit A – Scope of Services consistent with the Sealed Dollar Cost Bid Proposal (“Cost Proposal”) submitted by Consultant to the City on February 20, 2009.

Consultant agrees that the fees outlined in the Cost Proposal will be the maximum fees charged for the audit services rendered, and preparation and submission of the final audit reports. Consultant will not charge for out-of pocket expenses such as travel, transportation, or per diem associated with the engagement. The fees quoted in the Cost Proposal are the total that the City will be billed for audit services regardless of the actual time incurred, unless the City and Consultant mutually agree to and approve changes to the Scope of Services.

Total maximum compensation for services rendered pursuant to this agreement is not to exceed:

Fiscal Year 2008-09 Audit: \$51,840
Fiscal Year 2009-10 Audit: \$51,840



GALLINA_{LLP}

CERTIFIED PUBLIC ACCOUNTANTS

EXHIBIT A, CONT.

February 20, 2009

Mr. Andy Health
Administrative Services Director
City of Auburn
1225 Lincoln Way
Auburn, CA 95603

Dear Andy:

We are pleased to confirm our understanding of the services we propose providing to the City of Auburn for the years ending June 30, 2009 and 2010. We ask that you either confirm or amend that understanding.

We will audit the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information, which collectively comprise the basic financial statements of the City of Auburn (City), as of and for the years ending June 30, 2009 and 2010. Accounting standards generally accepted in the United States provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A) to accompany the City's basic financial statements. As part of our engagement, we will apply certain limited procedures to the City's RSI. These limited procedures will consist principally of inquiries of management regarding the methods of measurement and presentation, which management is responsible for affirming to us in its representation letter. Unless we encounter problems with the presentation of the RSI or with procedures relating to it, we will disclaim an opinion on it. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

1. Management's discussion and analysis.
2. Budgetary comparison schedules.

Supplementary information other than the RSI, such as combining and individual fund statements, also accompanies the City's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and will provide an opinion on it in relation to the basic financial statements:

1. Schedule of expenditures of federal awards, if required.
2. Combining and individual fund statements.

The document will also include the following additional information that will not be subject to the auditing procedures applied in our audit of the financial statements, and for which our auditor's report will disclaim an opinion:

1. Information required for a Comprehensive Annual Financial Report (CAFR):
 - a. Introductory section
 - b. Statistical section

Audit Objectives

The objective of our audit is the expression of opinions as to whether your basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the additional information referred to in the first paragraph when considered in relation to the basic financial statements taken as a whole. The objective also includes reporting on –

- Internal control related to the financial statements and compliance with the provisions of applicable laws, regulations, contracts, agreements and grants, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control related to major programs and an opinion (or disclaimer of opinion) on compliance with laws, regulations, and the provision of contracts or grant agreements that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The reports on internal control and compliance will each include a statement that the report is intended for the information and use of the audit committee, management, specific legislative or regulatory bodies, federal awarding agencies, and if applicable, pass-through entities and is not intended to be and should not be used by anyone other than those specified parties.

Our audit will be conducted in accordance with U.S. generally accepted auditing standards; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of OMB Circular A-133, and will include tests of the accounting records, a determination of major programs in accordance with Circular A-133, and other procedures we consider necessary to enable us to express such opinions and to render the required reports. If our opinions on the financial statements or the Single Audit compliance are other than unqualified, we will fully discuss the reasons with you in advance. If, for any reason, we are unable to form or have not formed opinions, we may decline to express an opinion or to issue a report as a result of this engagement.

Our audit will also include the following:

- (1) A report on procedures performed pursuant to Article XIII-B of the California Constitution (Gann Report).
- (2) Audit of the City of Auburn Urban Development Authority.

Management Responsibilities

Management is responsible for establishing and maintaining internal controls, including monitoring ongoing activities; for the selection and application of accounting principles; for the fair presentation in the financial statements of the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Auburn and the respective changes in financial position and, where applicable, cash flows in conformity with U.S. generally accepted accounting principles; and for federal award program compliance with applicable laws and regulations and the provisions of contracts and grant agreements. Management is responsible for the basic financial statements and all accompanying information as well as all representations contained therein.

Management is responsible for making all financial records and related information available to us, including identifying significant vendor relationships in which the vendor has the responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and for confirming to us in the representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

You are responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud or illegal acts affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Your responsibilities include informing us of your knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, you are responsible for identifying and ensuring that the City complies with applicable laws, regulations, contracts, agreements, and grants. Additionally, as required by OMB Circular A-133, it is management's responsibility to follow up and take corrective action on reported audit findings and to prepare a summary schedule of prior audit findings and a corrective action plan.

Management is responsible for establishment and maintenance of a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying for us previous audits or other engagements or studies related to the objectives discussed in the Audit Objectives section of this letter. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits or other engagements or studies. You are also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as your planned corrective actions, and the timing and format related thereto.

Management is responsible for the preparation of the Management's Discussion and Analysis section of the financial report. This section is not a required part of the basic financial statements, but is additional information required by accounting principles generally accepted in the United States of America.

Audit Procedures—General

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. We will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations that are attributable to acts by management or employees acting on behalf of the City. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because an audit is designed to provide reasonable, but not absolute assurance and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform you of any material errors and any fraudulent financial reporting or misappropriation of assets that comes to our attention. We will also inform you of any violations of laws or governmental regulations that come to our

attention, unless clearly inconsequential. We will include such matters in the reports required for a Single Audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, creditors, and financial institutions. We will request written representations from your attorneys as part of the engagement, and they may bill you for responding to this inquiry. At the conclusion of our audit, we will also require certain written representations from you about the financial statements and related matters.

Audit Procedures—Internal Controls

Our audit will include obtaining an understanding of the City and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by OMB Circular A-133, we will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed on internal control issued pursuant to OMB Circular A-133.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under professional standards. *Government Auditing Standards*, and OMB Circular A-133.

Audit Procedures—Compliance

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with applicable laws and regulations and the provisions of contracts and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

OMB Circular A-133 requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable laws and regulations and the provisions of contracts and grant agreements applicable to major programs. Our procedures will consist of the applicable procedures described in the *OMB Circular A-133 Compliance Supplement* for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of those procedures will be to express an opinion on the City's compliance with requirements applicable to each of the major programs in our report on compliance issued pursuant to OMB Circular A-133.

Responsibility for Non-audit Services

We will prepare a general ledger trial balance for use during the audit. Our preparation of the trial balance will be limited to formatting information in the City's general ledger into a working trial balance. Also as part of the audit we will assist in drafting your financial statements, schedule of expenditures of federal awards and related notes. In accordance with *Government Auditing Standards*, you will be required to review and approve those financial statements prior to their issuance and be in a position to make an informed judgment on those financial statements, schedules and notes. Further you are required to designate a qualified management-level individual to be responsible and accountable for overseeing our services.

As a result of our audit, we will provide you with adjusting journal entries, both those considered material and immaterial. The preparation of adjusting journal entries is considered a non-attest service. Consequently, *Government Auditing Standards*, require you to designate a qualified management-level individual to review these entries and to be responsible and accountable for any adjusting journal entries we may submit to you. Further, we will confirm with you your agreement with the adjusting journal entries that we have proposed and whether or not they will be posted to the City's accounts. We will also confirm with you your agreement that unrecorded adjusting journal entries, both individually and in the aggregate, are immaterial to the financial statements taken as a whole.

Audit Administration, Fees, and Other

We understand that your employees will prepare all cash or other confirmations we request and will locate any invoices selected by us for testing.

The timing of our audit is anticipated to be as noted below based on past experience.

	<u>Dates</u>
Entrance conference	August 24, 2009
Document internal control and perform walk-thrus	August 24-25, 2009
Mail confirmations	July 15, 2009
Receive year-end trial balance files	August 10, 2009
Perform year-end audit procedures	August 24-27, 2009
Issue draft audit report	September 30, 2009
Issue final audit report	December 31, 2009

Brad Constantine is the engagement partner and is responsible for supervising the engagement and signing the report.

At the conclusion of the engagement, we will provide bound copies, unbound copies and an electronic copy in portable document format (PDF) of all reports in the quantities you have designated. We will also provide additional bound copies of the City financial report, the management report and the single audit report for the purpose of completing the City's required submission to the California State Controller's Office.

We will also communicate to the City's governing board the following significant findings from the audit:

- Our view about the qualitative aspects of the City's significant accounting practices;
- Significant difficulties, if any, encountered during the audit;

- Uncorrected misstatements, other than those we believe are trivial, if any;
- Disagreements with management, if any;
- Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
- Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
- Representations we requested from management;
- Management's consultations with other accountants, if any; and
- Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

We will complete the appropriate sections of and sign the Data Collection Form that summarizes our audit findings. We will provide 3 copies of our reports to the City of Auburn; however, it is management's responsibility to submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and a corrective action plan) along with the Data Collection Form to the designated federal clearinghouse and, if appropriate, to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 days after receipt of the auditors' reports or nine months after the end of the audit period, unless a longer period is agreed to in advance by the cognizant or oversight agency for audits. At the conclusion of the engagement, we will provide information to management as to where the reporting packages should be submitted and the number to submit.

The audit documentation for this engagement is the property of GALLINA LLP and constitutes confidential information. However, pursuant to authority given by law or regulation, we may be requested to make certain audit documentation available to the State Controller's Office or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify you of any such request. If requested, access to such audit documentation will be provided under the supervision of GALLINA LLP personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for a minimum of seven years after the report release or for any additional period requested by the State Controller's Office. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation.

The parties agree that any controversy or claim arising out of or relating to the services provided pursuant to this engagement letter agreement shall be determined by arbitration in accordance with the applicable Arbitration Rules for Professional Accounting and Related Services Disputes of the American Arbitration Association; and judgment on the award rendered by the arbitrator(s) may be rendered in any court of competent jurisdiction.

Our fee for these services is proposed as follows:

<i>Task</i>	<i>2009</i>	<i>2010</i>
Audit of City's financial statements including drafting the City's CAFR	\$ 39,840	\$39,840
Schedule of federal award expenditures and major program testing in accordance with the single audit act	4,000	4,000
Audit of the Auburn Urban Development Authority	7,500	7,500
A report on procedures performed pursuant to Article XIII-B of the California Constitution (Gann Report)	500	500
Total	\$51,840	\$51,840

Our invoices for these fees will be rendered each month as work progresses and are payable on presentation. The above fee is based on anticipated cooperation from your personnel and the assumption that unexpected circumstances will not be encountered during the audit. If significant additional time is necessary, we will discuss it with you and arrive at a new fee estimate before we incur the additional costs.

The City is responsible for providing us with information to determine major federal award programs by at least five weeks prior to field work. Sometimes a major program should have been audited, but was not, because this information was not provided timely as requested or the information provided was not accurate. If for some reason this should occur, GALLINA LLP and the City will mutually revise the fee to include the additional time and costs needed to audit the missed program.

Government Auditing Standards require that we provide you with a copy of our most recent external peer review report and any letter of comment, and any subsequent peer review reports and letters of comment received during the period of the contract. Our 2006 peer review report accompanies this letter.

We appreciate the opportunity to be of service to the City of Auburn and believe this letter accurately summarizes the significant terms of our engagement. If you have any questions, please let us know. If you agree with the terms of our engagement as described in this letter, please sign the enclosed copy and return it to us.

Very truly yours,
GALLINA LLP



Brad W. Constantine, CPA, CFE, CVA
Partner

RESPONSE:

This letter correctly sets forth the understanding of City of Auburn.

By: _____

Title: _____

Date: _____

CARL M. ARNTZEN, CPA
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To the Partners
Gallina LLP

December 15, 2006

I have reviewed the system of quality control for the accounting and auditing practice of Gallina LLP (the firm) in effect for the year ended June 30, 2006. A system of quality control encompasses the firm's organizational structure, the policies adopted and procedures established to provide it with reasonable assurance of conforming with professional standards. The elements of quality control are described in the Statements on Quality Control Standards issued by the American Institute of CPAs (AICPA). The firm is responsible for designing a system of quality control and complying with it to provide the firm reasonable assurance of conforming with professional standards in all material respects. My responsibility is to express an opinion on the design of the system of quality control and the firm's compliance with its system of quality control based on my review.

My review was conducted in accordance with standards established by the Peer Review Board of the AICPA. During my review, I read required representations from the firm, interviewed firm personnel and obtained an understanding of the nature of the firm's accounting and auditing practice, and the design of the firm's system of quality control sufficient to assess the risks implicit in its practice. Based on my assessments, I selected engagements and administrative files to test for conformity with professional standards and compliance with the firm's system of quality control. The engagements selected represented a reasonable cross-section of the firm's accounting and auditing practice with emphasis on higher-risk engagements. The engagements selected included among others, audits of Employee Benefit Plans and engagements performed under Government Auditing Standards. Prior to concluding the review, I reassessed the adequacy of the scope of the peer review procedures and met with firm management to discuss the results of my review. I believe that the procedures I performed provide a reasonable basis for my opinion.

In performing my review, I obtained an understanding of the system of quality control for the firm's accounting and auditing practice. In addition, I tested compliance with the firm's quality control policies and procedures to the extent I considered appropriate. These tests covered the application of the firm's policies and procedures on selected engagements. My review was based on selective tests and therefore it would not necessarily detect all weaknesses in the system of quality control or all instances of noncompliance with it. There are inherent limitations in the effectiveness of any system of quality control and therefore noncompliance with the system may occur and not be detected. Projection of any evaluation of a system of quality control to future periods is subject to the risk that the system of quality control may become inadequate because of changes in conditions, or because the degree of compliance with the policies or procedures may deteriorate.

In my opinion, the system of quality control for the accounting and auditing practice of Gallina LLP in effect for the year ended June 30, 2006, has been designed to meet the requirements of the quality control standards for an accounting and auditing practice established by the AICPA and was complied with during the year then ended to provide the firm with reasonable assurance of complying with professional standards.

Carl M. Arntzen, CPA

Carl M. Arntzen, CPA